

REPORT OF  
FINANCIAL EXAMINATION

**Clark Mutual  
Insurance Company**

As of:

December 31, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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November 2, 2005  
Kahoka, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a financial examination has been made of the records, affairs and financial condition of the

**Clark Mutual Insurance Company**

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 108 North Washington, Kahoka, Missouri 63445; telephone number (660) 727-2177. This examination was conducted at the home office in Kahoka, Missouri. The examination began October 17, 2005, and concluded November 2, 2005.

**SCOPE OF EXAMINATION**

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2000, for the period ending December 31, 1999. The current examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by an examiner from the Missouri Department of Insurance.

## Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri.

## Comments - Previous Examination Report

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

### **1. Comment:**

“The Board should execute or enter into an agents agreement with the Huffman Insurance Agency. This agreement would serve to formally document the arrangement under which the Company and agency are currently working. The agreement should outline the cost of space occupied by the agency, allocation of non-direct expenses such as utilities and address any other items that are shared through the current arrangement. In addition, the agreement should outline the commission structure and reimbursement procedures for adjusting and inspection services performed by the agency.”

### **Company Response:**

The Board acknowledged this comment and indicated that the issue would be addressed.

### **Current Examination Findings:**

The Company has entered into an agents agreement with the Huffman Insurance Agency. The agreement outlines the various financial aspects mentioned above.

## **HISTORY**

### General

The Company was organized in 1881 as the Farmers Mutual Fire Insurance Company of Clark County. On January 28, 1985, the Company amended its Articles of Incorporation and changed its name to Clark Mutual Insurance Company. On July 26, 1985, the Company received a Certificate of Authority to provide insurance under Sections 380.201 to 380.601, RSMo (Extended Missouri Mutual Insurance Company).

### Management and Control

The Company is managed by a board of nine directors, serving staggered, three-year terms. Directors are elected at annual member meetings held on the last Monday of January. Special meetings of the members may be called at any time by the Board or upon petition of one-fourth of the members. A person must have a policy with the Company in order to be a member. Eight members constitute a quorum at annual meetings and proxy voting is permitted. Directors receive \$40 per meeting plus mileage as compensation for attending meetings.

The Board consisted of the following members as of December 31, 2004:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Gene Phillips, President Route 1, Box 80A Luray, Missouri 63453	Farmer	2005-2007
Lee Suter, Vice President Route 1, Box 1510 Wyconda, Missouri 63474	Farmer	2003-2005
John D. Huffman, Secretary/ Treasurer 418 North Washington Kahoka, Missouri 63445	Agent	2003-2005

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Clifford W. Higbee Route 1, Box 41 Canton, Missouri 63435	Farmer	2004-2006
Robert M. Huffman 720 North Martin Avenue Kahoka, Missouri 63445	Retired	2003-2005
James A. Lorigan Route 1, Box 47 Revere, Missouri 63465	Farmer	2005-2007
Gary Plenge Route 2, Box 73 Kahoka, Missouri 63445	Farmer	2004-2006
Steve Weaver Route 2, Box 34 Kahoka, Missouri 63445	Farmer	2005-2007
C. J. Dean Route 1, Box 42 Kahoka, Missouri 63445 (Deceased in late 2004)	Farmer	2004
Edwin Riney Route 2, Box 23 Revere, Missouri 63465 (Replaced C. J. Dean in 2005)	Farmer	2005-2006

#### Conflict of Interest

Signed conflict of interest statements are obtained annually from all directors. No conflicting situations were identified during this examination.

#### Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established

in the Articles of Incorporation and Bylaws. Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Board formally acknowledged receipt of the previous Missouri Department of Insurance report of examination at its August 14, 2000, meeting. Attendance at the Board and annual meetings appeared satisfactory.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company has fidelity bond coverage of \$50,000 from Old Republic Surety Company, which meets the minimum requirement suggested by the NAIC. The Company does not have errors and omissions coverage; rather, the agency serving the Company maintains the coverage. A directors and officers policy, with a limit of \$1,000,000, is provided by NAMIC Insurance Company, Inc. The Company has a general business policy for property and liability coverage from Grinnell Mutual Reinsurance Company.

### **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has two full time employees: John Huffman, Office Manager and Debbie Suter, Office Secretary. Two weeks of vacation and some paid holidays are allowed. The Company also allows one day per month sick leave to be accrued. The Company offers health coverage and has a workers compensation policy for its employees. No other benefits are provided.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverages in all Missouri counties, although the business is primarily written in the counties of Clark, Lewis and Scotland. Insurance is provided on a non-assessable basis. The Company advertises through some radio stations and newspapers and participates in promotional activities involving local organizations.

The Company actively writes fire and windstorm coverage. Liability coverage is provided by way of an Affiliated Agency Contract between the agency and Grinnell Mutual Reinsurance Company (Grinnell). All premiums, less a 20% commission, and risk associated with liability coverage is passed on to Grinnell. This allows the Company to offer a more complete package of coverage without having to assume the additional risk associated with liability business.

### **Policy Forms and Underwriting Practices**

The Company writes policies on an annual, continuous renewal basis. Policy forms are provided by the American Association of Insurance Services (AAIS). The Board of Directors establishes the rates. The sole agent for the Company is John Huffman, of the Huffman Insurance Agency. Per the Agent Contract between the Company and John Huffman, the agent receives a commission of 15% on all new and renewal business. All inspections and claims adjusting are



performed by John Huffman. Additional claim adjusting services can be requested from Grinnell when deemed necessary.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

Year	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Admitted Assets	1,141,642	1,051,943	949,400	924,368	881,030
Liabilities	131,333	118,853	51,213	53,849	52,536
Gross Assessments	235,432	231,430	107,972	109,463	107,910
Losses Incurred	37,938	34,479	42,711	26,555	25,999
Investment Income	22,110	32,861	51,441	43,463	35,140
Underwriting Income	55,957	11,436	(19,052)	(8,011)	(5,695)
Net Income	78,089	44,323	37,079	39,856	33,547
Policies In Force	520	540	601	608	625

These figures are based on data from annual statements provided by the Company. The trends in this table indicate that the Company continues to build assets and has experienced both underwriting and operational profits for the past two year. However, there has been a constant decline in the number of policies in force.

### **REINSURANCE**

#### Assumed

None.

#### Ceded

The Company has an aggregate excess of loss contract with Grinnell Mutual Reinsurance Company for its fire and windstorm business. The attachment point is determined by a formula that considers such factors as the fire risks in force at the end of the preceding year and the ten-year fire loss ratio. The attachment point for contract year 2004 is \$93,172. The policy has limitations for various types of risks and the Company uses those limitations in its policies as well. Premium for

this coverage is currently \$0.4641 per \$1,000 of adjusted gross fire risk in force at the end of each month during the contract year. The reinsurance contract was reviewed and no unusual clauses or requirements were noted. The contract included the necessary and usual clauses.

### **ACCOUNTS AND RECORDS**

The Company maintains its records on a cash basis with accrual adjustments made for reporting purposes and to establish reserves. A computer-based program from Grinnell Mutual is used for recording all policyholder information. A manual record is kept for all cash disbursements, premium receipts, and claims. Grinnell Mutual performs an annual compilation of the Company's transactions, which serves as the basis for the annual statement.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, with respect to their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

### **ADMITTED ASSETS**

Bonds	\$168,914
Stocks	4,979
Real Estate	35,921
Cash on Deposit	923,961
Computer Hardware	1,678
Interest Due and Accrued	<u>6,189</u>
Total Assets	<u>\$1,141,642</u>

### **LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses Unpaid	\$11,931
Ceded Reinsurance Payable	2,123
Unearned Premium	112,519
Premiums Received in Advance	3,376
Amounts Withheld or Retained for Accounts of Others	1,384
Unrecorded Liabilities (Note 1)	<u>2,851</u>
Total Liabilities	<u>\$134,184</u>
Guaranty Fund	\$150,000
Other Surplus	<u>857,458</u>
Total Policyholder Surplus	<u>\$1,007,458</u>
Total Liabilities and Surplus	<u>\$1,141,642</u>

## STATEMENT OF INCOME

Net Assessments	\$229,980
Reinsurance Commission	<u>3,493</u>
Net Losses	37,938
Underwriting Expenses	<u>139,578</u>
Net Underwriting Income (Loss)	\$55,957
Net Investment Income	22,110
Net Other Income	22
Federal Income Tax	<u>0</u>
Net Income	<u>\$78,089</u>

## CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2003	\$933,090
Net Income (reported by the Company)	78,089
Net Changes in Non-ledger Assets and Liabilities	(869)
Examination Changes (Net)	<u>(2,851)</u>
Policyholders' Surplus, December 31, 2004	<u>\$1,007,458</u>

## NOTES TO THE FINANCIAL STATEMENTS

### *Note 1 - Unrecorded Liabilities*

\$2,851

During a review of subsequent payments, it was noticed that the Company did not establish a liability for commissions due to its agent or an outstanding electric bill. These expenses relate to 2004 activity and should have been shown as a liability at year's end.

## EXAMINATION CHANGES

Total Policyholder Surplus per 2004 Annual Statement: \$1,010,309

	Increase In <u>Surplus</u>	Decrease In <u>Surplus</u>
Change in Liabilities (Note 1)	\$0	\$(2,851)
Change in Unearned Premium	\$0	\$0
Total Increase / (Decrease) in Surplus	<u>\$0</u>	<u>\$(2,851)</u>
Net Increase / (Decrease) in Surplus		<u>\$(2,851)</u>
Total Policyholder Surplus per 2004 Examination		<u>\$1,007,458</u>

## GENERAL COMMENTS AND RECOMMENDATIONS

None.

## SUBSEQUENT EVENTS

None.

## ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Clark Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

I, Karen J. Milster, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Karen J. Milster  
Karen J. Milster, CPA, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 2<sup>nd</sup> day of November 2005.

My commission expires: April 10, 2008

Suzanne M. Igou  
Notary Public



SUZANNE M. IGOU  
Greene County  
My Commission Expires  
April 10, 2008

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with Missouri statutes has been confirmed.

Christiana Dugopolski  
Christiana Dugopolski, CPA, CFE  
Audit Manager - St. Louis  
Missouri Department of Insurance